

VZCZCXYZ0010
PP RUEHWEB

DE RUEHBO #4577/01 3591553
ZNY CCCCC ZZH
P 241553Z DEC 08 ZDK
FM AMEMBASSY BOGOTA
TO RUEHC/SECSTATE WASHDC PRIORITY 6293
INFO RUEHBR/AMEMBASSY BRASILIA PRIORITY 8569
RUEHCV/AMEMBASSY CARACAS PRIORITY 1458
RUEHPE/AMEMBASSY LIMA PRIORITY 6853
RUEHZP/AMEMBASSY PANAMA PRIORITY 2815
RUEHQT/AMEMBASSY QUITO PRIORITY 7550
RUEHTV/AMEMBASSY TEL AVIV PRIORITY 0544
RUCPDO/DEPT OF COMMERCE WASHDC PRIORITY
RUEKJCS/JOINT STAFF WASHINGTON DC PRIORITY
RUEKJCS/SECDEF WASHDC PRIORITY
RUEAIIA/CIA WASHDC PRIORITY
RHEHNSC/NSC WASHDC PRIORITY
RUEAWJA/DEPT OF JUSTICE WASHDC PRIORITY
RHMFIUU/FBI WASHINGTON DC PRIORITY
RHMFISS/CDR USSOUTHCOM MIAMI FL PRIORITY

C O N F I D E N T I A L BOGOTA 004577

SIPDIS

E.O. 12958: DECL: 12/24/2018
TAGS: [PGOV](#) [PREL](#) [PREF](#) [PTER](#) [MASS](#) [MCAP](#) [CO](#)
SUBJECT: GOC REPORTS ON WEALTH TAX EXPENDITURES

Classified By: Acting Political Counselor David M. Zimov
Reasons 1.4 (b and d)

SUMMARY

1. (C) The Colombian Ministry of Defense (MOD) reported in November 2008 that the four-year "wealth tax" imposed on Colombia's richest citizens and enterprises to fund the democratic security policy would total \$3.7 billion from 2007-2011. Approximately 80% is directed towards the internal conflict and will be spent primarily on manpower increases in the military and police, mobility (helicopters), and intelligence upgrades. The remaining 20% is directed towards external threats--primarily Venezuela--and will be used to upgrade Colombia's aging fleet of jets, frigates and submarines. The MOD's proposal for an additional wealth tax to focus on consolidation efforts beyond 2011 has been met by firm political resistance, especially given the grim economic outlook for 2009. End Summary.

BACKGROUND

2. (C) President Uribe instituted the first wealth tax ("impuesto al patrimonio") in 2002, which raised over \$800 million to boost military spending. A similar tax imposed from 2007-2011 ("recursos extraordinarios") and levied on the country's wealthiest individuals and enterprises is expected to raise another \$3.7 billion. The wealth tax applies to approximately 50,000 Colombian individuals and corporations, and levies a 1.2 percent tax on liquid assets valued over three billion pesos (about \$1.35 million). Deductions are allowed for shares held in government entities and the value of a personal residence up to about \$100,000. The wealth tax is scheduled to be collected in 10 tranches ("cupos") between 2007 and 2011. Expenditure priorities are proposed by the MOD and reviewed by an ethics committee composed of 12 members from the private sector.

DEFENSE SPENDING AS % OF GDP

3. (C) The GOC reported to congress in November 2008 that Colombia's defense spending as a percentage of GDP increased in 2008 to an estimated 5.7%, up from 5.3% in 2007. This percentage has been trending upwards since 1990, when defense spending accounted for only 2.2% of GDP. Director of Planning and Budget at the MOD, Yaneth Giha Tovar, cautioned that these defense figures take into account various

enterprises that the GOC does not consider part of its "core business" -- including enterprises owned by the MOD, autonomous bodies such as military schools, and health and pension funds for security services. When non-core amounts are subtracted, the percentage of the GDP spent on defense in 2008 was 3.9% in 2008, but still up from 3.3% in 2007.

SPENDING PRIORITIES

¶4. (C) According to the GOC report, wealth tax revenues of 7,540,082 million Colombian pesos (roughly \$3.4 billion, under an exchange rate of 2230 Colombian pesos per dollar) have been allocated as follows:

- Army/Police personnel - 37%
- Mobility - 25%
- External threat - 20%
- Arms/supplies/infrastructure - 7%
- Sustainability (e.g. fuel) - 5%
- Intelligence - 4%
- Accion integral (consolidation) - 2%

¶5. (C) Of the approximately \$1.3 billion in personnel expenditures, 34% was allocated to the Army, 22% to the Navy, Marines and Coast Guard, 21% to the Air Force, and 23% to the Police. With these funds, 14,000 soldiers, 3,000 Marines and 900 Air Force personnel have been added, and an additional 20,000 Police are set to be hired through 2010. Giha indicated that the "sustainability" category is designed to cover fuel (consistent with U.S. requests that the GOC absorb these costs) and other costs necessary to sustain operations of both equipment and personnel. While intelligence and consolidation spending appear comparatively low, additional funds are spent on these items by other government ministries, and approximately \$100 million of wealth tax funds were transferred from other categories to fund intelligence, particularly to purchase UAVs with Intelligence, Surveillance and Reconnaissance (ISR) capabilities. Giha said that GOC successes against high value targets (HVTs) had prompted the President and Minister of Defense to increase spending on these intelligence platforms.

MANPOWER ADDITIONS

¶6. (C) A June 2008 MOD report provides more detail regarding the specific use of wealth tax funds for intelligence, mobility and manpower upgrades. The MOD is acquiring intelligence platforms and equipment for the Army, Navy, Air Force and Police, and will also create a General Command intelligence fusion center. In terms of manpower increases, the Army is adding 3 mobile brigades, 3 infantry battalions, 2 engineering battalions, 2 mobile engineering companies, and 2 anti-explosive companies. The Colombian Navy will add 3 Coast Guard stations, 2 battalions of Marine infantry, 4 riverine combat elements, and 1 Coast Guard ship. The Air Force will add 1 air group. The National Police will add 3 mobile Carabineros squads and 18 rural police units, and will construct 60 police stations, complete 48 other police stations, and upgrade 1 police station.

EQUIPMENT

¶7. (C) The June 2008 MOD report provides detail on equipment purchases with wealth tax funds. The Army will acquire 15 UH-60L helicopters, 5 MI-17 helicopters, armored vehicles, buses, 5 Grand Caravan airplanes, and Spike Launchers. The Navy will acquire 1 ocean patroller, 1 coastal patroller, 3 go-fast boats, 13 midnight express boats, 23 riverine support boats, 4 mobile river stations, and will invest in a San Andres Coast Guard station and modernization of 8 frigates and 2 submarines. The Air Force will acquire 12 Huey II helicopters, 4 C-295 aircraft, 2 King 350 aircraft, 1 B-767 aircraft, 8 Grand Caravan aircraft, 25 training aircraft and will invest in aerial infrastructure, re-outfitting of 24 Kfir aircraft, conversion of 8 UH-60A helicopters, command and control systems, UAV and satellite systems, and 2 intelligence platforms. Finally, the Police will acquire

7,000 vehicles and will invest in 200 infrastructure projects and various communication networks.

INTERNAL VS. EXTERNAL THREATS

¶18. (C) Approximately 80% of the wealth tax funding to date has been targeted against the internal conflict, with the remaining 20% directed towards external threats--particularly Venezuela. Giha said that at the time when the wealth tax was conceived in 2006, Venezuela was not considered a military threat--but this view and consequently certain resources "had to be re-calibrated" in light of the March 2008 crisis with Venezuela over the GOC attack against Raul Reyes' FARC camp in Ecuador. Faced with a fleet of deteriorating Kfir fighters, frigates, and submarines, the GOC decided to upgrade/refit the assets rather than "scrap" them. Giha said some of these assets also served the GOC in the internal conflict; for example, submarines are used for anti-narcotics and Kfirs are used to target HVTs.

FOREIGN ARMS PURCHASES

¶19. (C) An earlier, December 2007 MOD report detailed wealth tax expenditures through 2007, and provides the following breakdown regarding foreign arms purchases:

- Israel: 38% (intelligence materials, optronics, transport aircraft, combat aircraft, arms and munitions)
- United States: 37% (Forward Area Refueling Equipment, arms, helicopters, aeronautical equipment and helmets)
- Spain: 19% (military transport aircraft)
- Russia: 6% (helicopters)

Giha noted that the large amount of arms purchases from Israel was due to the contract to refit the Kfir fighters and that the percentage would drop in the out years, while U.S. purchases as a percentage would likely rise. Despite this prediction, we note that the MOD has recently chosen a German solution rather than Lockheed Martin for its submarine renovation project and has sent mixed signals regarding the selection of a U.S. solution for its major frigate modernization program.

FUTURE WEALTH TAX UNLIKELY

¶10. (C) Giha told us that Defense Minister Juan Manuel Santos had considered levying an additional wealth tax to fund security operations beyond 2011, with a focus on consolidation efforts and external threats. She said the MOD acknowledged that once the military cleared an area of illegal armed groups, police and state institutions need to follow closely behind "to win hearts and minds" and to keep the territory from backsliding -- and those activities would need future funding. However, the MOD concluded that projected slower economic growth in 2009, and consequently lower fiscal revenues, made plans for an additional consolidation-focused wealth tax politically difficult.

BROWNFIELD